

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



November 2018

www.cottoninc.com

Macroeconomic Overview: The U.S. Bureau of Economic Analysis released its first estimate for GDP in the third quarter. At a 3.5% seasonally-adjusted annual rate, growth in the third quarter is below the 4.2% growth recorded in the second quarter. Nonetheless, it remains well above the average since the financial crisis. The deceleration quarter-over-quarter was primarily a result of lower exports, less business investment, and higher imports. Growth in consumer spending rose quarter-over-quarter (from 3.8% to 4.0%). This is the strongest rate of spending growth since 2014 (was 3.8% in the second quarter and 0.5% in the first quarter).

Twice each year, in April and October, the International Monetary Fund (IMF) updates its complete set of forecasts for GDP global growth. In contrast to the recent tendency, when projections were commonly lifted higher, the latest set of revisions were downward. The IMF's projection for world GDP growth was lowered 0.2 points for 2018 and 2019, dropping from 3.9% to 3.7% for both years. Forecasts for advanced economies were lowered 0.1 points relative for April's figures (from 2.5% to 2.4% for 2018, from 2.2% to 2.1% for 2019). Forecasts for emerging and developing markets were lowered from 4.9% to 4.7% for 2018, from 5.1% to 4.7% for 2019.

China's National Bureau of Statistics indicated that the annual rate of growth in Chinese GDP was 6.5% last quarter. This is the slowest rate of growth for China since the financial crisis. EuroStat, the statistics agency for the European Union (E.U.), indicated that the annualized rate for the Euro Zone was only 0.8% last quarter (was 1.6% in the second quarter). The latest country of concern for the collective economy is Italy, where growth has stalled and the government is in dispute with the E.U. regarding budgetary direction.

Employment: The U.S. economy is estimated to have added 250,000 jobs in October. Revisions to figures for previous months were mixed, with the number for August dropping from +134,000 to +118,000 and the number for September rising from +270,000 to +286,000. The average so far this year is +213,000. During the same time period last year, the average was +180,000.

Importantly, wage growth accelerated last month. At 3.1%, the year-over-year increase in October marked the first time since the recession that wages increased by more than three percent. Rising pay has a range of potential consequences for the economy. Higher income can fuel growth in consumer spending. In turn, greater consumer demand can bid up prices and lead to higher inflation. To prevent inflation from running too high, the Federal Reserve can raise interest rates.

Correspondingly, as wages trended slowly higher over the past couple years, the Federal Reserve began increasing interest rates. This shift away from the unprecedented low rates maintained since the financial crisis represents a major shift for the global economy. With the Federal Reserve being the only large advanced economy increasing rates, investment flows have favored the U.S. This rise in demand for dollars caused the dollar to increase in value against a wide range of currencies.

A stronger dollar can lower import prices and therefore can be a factor helping to control inflation. Additionally, many internationally traded commodities are priced in dollars, and when the dollar strengthens it means that fewer dollars are required to equal the intrinsic (useable) value of those commodities. Therefore, a stronger dollar is associated with downward pressure on commodity prices. Given this swirl of influences, wage growth will remain an important statistic to track.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased last month (+2.6 points), rising from 135.3 to 137.9 in October. Values continue to approach the all-time high of 144.7 registered in January 2000.

Overall consumer spending increased 0.3% month-over-month in seasonally-adjusted data for September (latest available). Year-over-year, total consumer spending was 3.0% higher. Consumer spending on apparel was down 1.5% month-over-month. However, this follows two months of back-to-back strong growth and consumer spending on apparel was up a healthy 5.3% year-over-year.

The National Retail Federation, a trade group representing the U.S. retailer sector, forecast that spending during the holiday sale period would be up between 4.3% and 4.8%. These expectations follow 5.2% growth last year (five year average is 3.9%). Rising wages and high confidence supported spending last year and are expected to do so again this year.

Consumer Prices & Import Data: After three months of successive decreases, average consumer prices for apparel increased 1.6% month-over-month in September (latest available). Year-over-year, retail clothing prices were down 0.5%.

Average import prices per square meter equivalent (SME, seasonally-adjusted) for cotton-dominant apparel were flat month-over-month in September. Year-over-year, cotton-dominant apparel import prices were 1.9% higher. For the twelve months ending in September, the volume of cotton-dominant imports was flat (+0.2%). Despite the tariff threat, China's share of cotton-dominant apparel imports has held steady near 29%.

U.S. Macroeconomic & Cotton Supply Chain Charts

| Macroeconomic Indicators | | Industry & Textiles | Retail | Currencies | Cotton |
|--------------------------|--------------------|-----------------------|-------------------|----------------|--------------------|
| GDP Growth | Leading Indicators | Industrial Production | Consumer Spending | Weighted Index | U.S. Balance Sheet |
| Interest Rates | Consumer Conf. | Inventory/Shipments | Inventory/Sales | Asia | Fiber Prices |
| ISM Indices | Employment | U.S. Yarn Exports | Consumer Prices | The Americas | |
| | Housing | Polyester PPI | | Europe | |

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
November 2018



Macroeconomic Data Quarterly Data

| | Recent Averages | | | | Values in Recent Quarters | | | Unit | Source |
|-----------------------|-----------------|--------|---------|---------|---------------------------|-----------|-----------|------------------------|------------------------|
| | 5-year | 1-year | 6-month | 3-month | Q1 : 2018 | Q2 : 2018 | Q3 : 2018 | | |
| Growth in US Real GDP | 2.5% | 2.3% | 3.9% | 3.5% | 2.2% | 4.2% | 3.5% | % Chg. Quarter/Quarter | Department of Commerce |

Monthly Series with Latest Data for October

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|---|-----------------|--------|---------|---------|-------------------------|-----------|---------|-------------------|---------------------------------|
| | 5-year | 1-year | 6-month | 3-month | August | September | October | | |
| ISM Index of Manufacturing Activity | 54.8 | 55.2 | 59.2 | 59.7 | 61.3 | 59.8 | 57.7 | Index | Institute for Supply Management |
| ISM Index of Non-Manufacturing Activity | 56.5 | 56.7 | 58.4 | 58.6 | 58.5 | 61.6 | n/a | Index | Institute for Supply Management |
| Consumer Confidence | 104.1 | 113.7 | 129.9 | 132.6 | 134.7 | 135.3 | 137.9 | Index | The Conference Board |
| Change in Non-Farm Payrolls | 210.8 | 201.6 | 203.3 | 189.7 | 286 | 118 | 250 | Thousands of jobs | Bureau of Labor Statistics |
| Unemployment Rate | 5.1% | 4.5% | 3.9% | 3.8% | 3.9% | 3.7% | 3.7% | Rate | Bureau of Labor Statistics |

Monthly Series with Latest Data for October

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|--------------------------------------|-----------------|--------|---------|---------|-------------------------|-----------|---------|--------------------------------|----------------------------------|
| | 5-year | 1-year | 6-month | 3-month | August | September | October | | |
| US Interest Rates | | | | | | | | | |
| Federal Funds | 0.6% | 0.9% | 1.8% | 1.9% | 1.9% | 2.0% | 2.2% | Interest rate | Federal Reserve |
| 10-year Treasury Bill | 2.3% | 2.3% | 2.9% | 2.9% | 2.9% | 3.0% | 3.2% | Interest rate | Federal Reserve |
| Index of Leading Economic Indicators | 100.6 | 103.8 | 110.4 | 111.3 | 110.8 | 111.2 | 111.8 | Index | The Conference Board |
| Housing Starts | 11.4 | 12.1 | 12.4 | 12.2 | 1.2 | 1.3 | 1.2 | Annual pace, millions of units | Department of Commerce |
| Existing Home Sales | 5.3 | 5.4 | 5.3 | 5.3 | 5.3 | 5.3 | 5.2 | Annual pace, millions of units | National Association of Realtors |

Industrial and Textile Data

Monthly Series with Latest Data for September

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|--------------------------|-----------------|--------|---------|---------|-------------------------|--------|-----------|--------------------------|----------------------------|
| | 5-year | 1-year | 6-month | 3-month | July | August | September | | |
| US Industrial Production | 104.2 | 103.9 | 107.7 | 108.2 | 107.8 | 108.2 | 108.5 | Index, 2002=100 | Federal Reserve |
| Polyester Fiber PPI | 107.1 | 108.3 | 108.3 | 107.2 | 98.2 | 97.9 | 98.2 | Index, December 2003=100 | Bureau of Labor Statistics |

Monthly Series with Latest Data for August

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|---|-----------------|--------|---------|---------|-------------------------|------|--------|---------------------|----------|
| | 5-year | 1-year | 6-month | 3-month | June | July | August | | |
| Bale Equivalence of US Cotton Yarn & Fabric Exports | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 | 2.9 | 3.0 | million 480lb bales | USDA ERS |

Monthly Series with Latest Data for September

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|---|-----------------|--------|---------|---------|-------------------------|--------|-----------|-------|------------------------|
| | 5-year | 1-year | 6-month | 3-month | July | August | September | | |
| US Textile Mill Inventory/Shipments Ratio | 1.27 | 1.30 | 1.28 | 1.28 | 1.28 | 1.28 | 1.28 | Ratio | Department of Commerce |

Retail Data

Monthly Series with Latest Data for September

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|---------------------------|-----------------|--------|---------|---------|-------------------------|--------|-----------|------------------|----------------------------|
| | 5-year | 1-year | 6-month | 3-month | July | August | September | | |
| US Real Consumer Spending | | | | | | | | | |
| All Goods and Services | 2.9% | 2.7% | 2.8% | 3.0% | 3.0% | 3.2% | 3.0% | % Chg. Year/Year | Department of Commerce |
| Clothing and Shoes | 2.6% | 2.7% | 4.4% | 5.9% | 5.8% | 6.6% | 5.3% | % Chg. Year/Year | Department of Commerce |
| Consumer Price Indices | | | | | | | | | |
| Overall | 1.5% | 1.8% | 2.6% | 2.6% | 2.9% | 2.7% | 2.3% | % Chg Year/Year | Bureau of Labor Statistics |
| Apparel | -0.4% | -0.1% | 0.3% | -0.7% | 0.2% | -1.9% | -0.5% | % Chg. Year/Year | Bureau of Labor Statistics |

Monthly Series with Latest Data for August

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|--|-----------------|--------|---------|---------|-------------------------|------|--------|-------|------------------------|
| | 5-year | 1-year | 6-month | 3-month | June | July | August | | |
| Retail Inventory/Sales Ratio | | | | | | | | | |
| Clothing and Clothing Accessory Stores | 2.4 | 2.4 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | Ratio | Department of Commerce |
| Department Stores | 2.1 | 2.1 | 2.0 | 2.0 | 2.0 | 2.1 | 2.0 | Ratio | Department of Commerce |

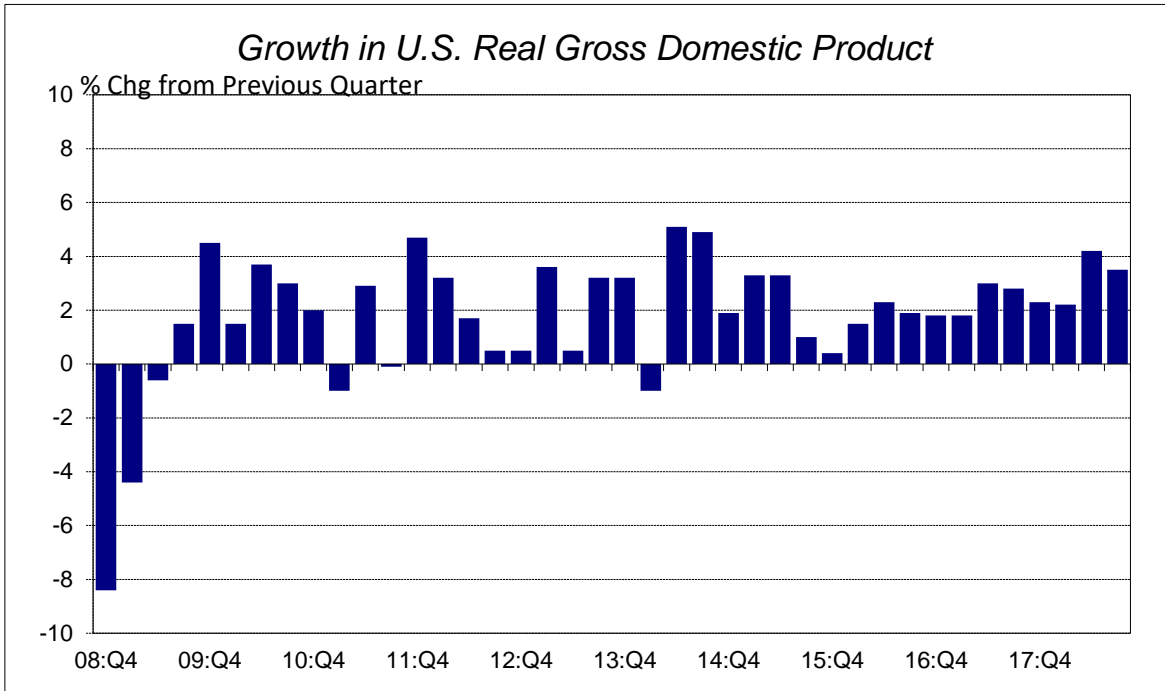
Executive Cotton Update

Daily Cotton Price and Currency Data

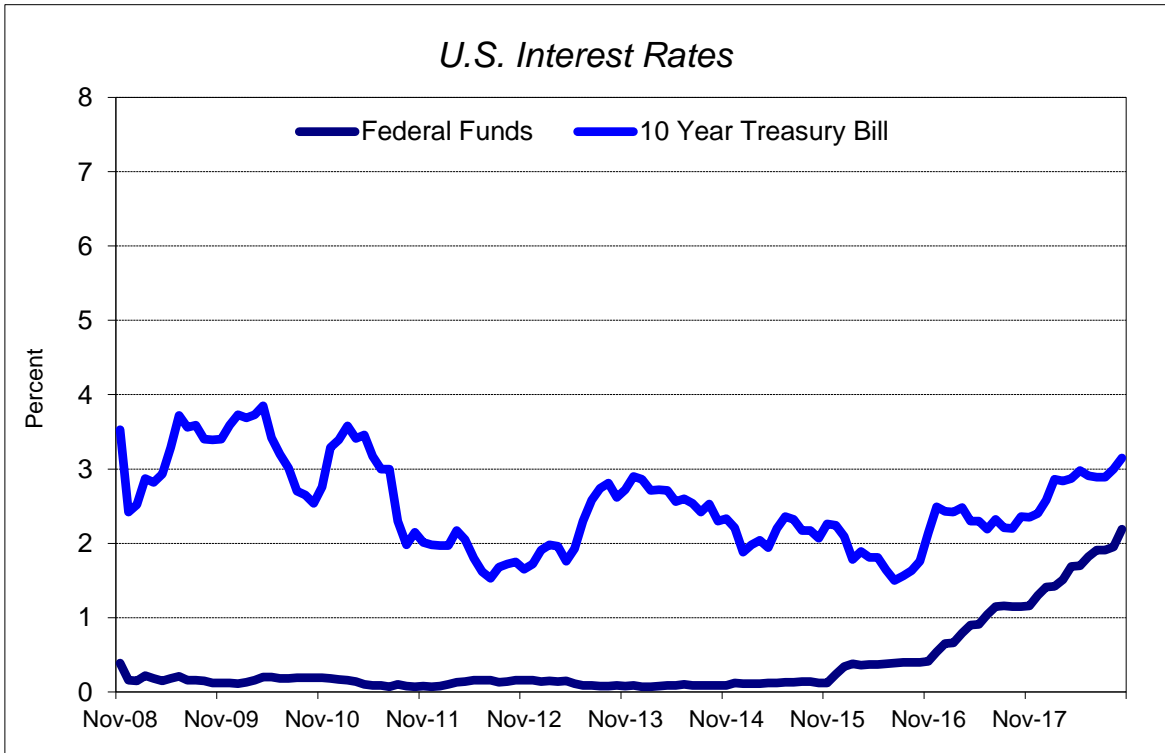
November 2018



| Daily Cotton Price Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
|--------------------------------------|-----------------|--------|---------|---------|-----------------------------|-----------|---------|----------------------------|-----------------|
| | 5-year | 1-year | 6-month | 3-month | August | September | October | | |
| NY Nearby | 72.2 | 72.8 | 84.3 | 80.9 | 84.5 | 80.6 | 77.5 | cents/pound | ICE |
| A Index | 80.5 | 82.1 | 93.3 | 90.5 | 94.4 | 90.4 | 86.8 | cents/pound | Cotlook |
| Daily Currency Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
| | 5-year | 1-year | 6-month | 3-month | August | September | October | | |
| Dollar Trade Weighted Exchange Index | 116.8 | 122.1 | 124.1 | 125.5 | 124.4 | 126.2 | 125.8 | Index, January 1997=100 | Federal Reserve |
| Asian Currencies | | | | | | | | | |
| Chinese Renminbi | 6.46 | 6.63 | 6.66 | 6.84 | 6.83 | 6.82 | 6.88 | Chinese Renminbi/US dollar | Reuters |
| Indian Rupee | 64.75 | 66.45 | 69.18 | 70.86 | 68.66 | 71.07 | 72.87 | Indian Rupee/US dollar | Reuters |
| Japanese Yen | 111.34 | 111.21 | 111.08 | 112.05 | 111.47 | 111.03 | 113.65 | Japanese Yen/US dollar | Reuters |
| Pakistani Rupee | 105.90 | 108.31 | 120.79 | 124.06 | 123.85 | 124.15 | 124.18 | Pakistani Rupee/US dollar | Reuters |
| North & South American Currencies | | | | | | | | | |
| Brazilian Real | 3.15 | 3.45 | 3.84 | 3.95 | 3.76 | 4.13 | 3.96 | Brazilian Real/US dollar | Reuters |
| Canadian Dollar | 1.25 | 1.31 | 1.30 | 1.30 | 1.30 | 1.31 | 1.28 | Canadian dollar/US dollar | Reuters |
| Mexican Peso | 16.91 | 18.70 | 19.29 | 18.87 | 18.65 | 19.20 | 18.77 | Mexican Peso/US dollar | Reuters |
| European Currencies | | | | | | | | | |
| British Pound | 0.70 | 0.75 | 0.76 | 0.77 | 0.77 | 0.78 | 0.77 | British Pound/US dollar | Reuters |
| Euro | 0.85 | 0.88 | 0.86 | 0.86 | 0.86 | 0.86 | 0.87 | Euro/US dollar | Reuters |
| Swiss Franc | 0.96 | 0.98 | 0.99 | 0.98 | 0.99 | 0.97 | 0.98 | Swiss Franc/US dollar | Reuters |
| Turkish Lira | 3.14 | 3.65 | 5.18 | 5.90 | 5.07 | 6.65 | 5.99 | Turkish Lira/US dollar | Reuters |



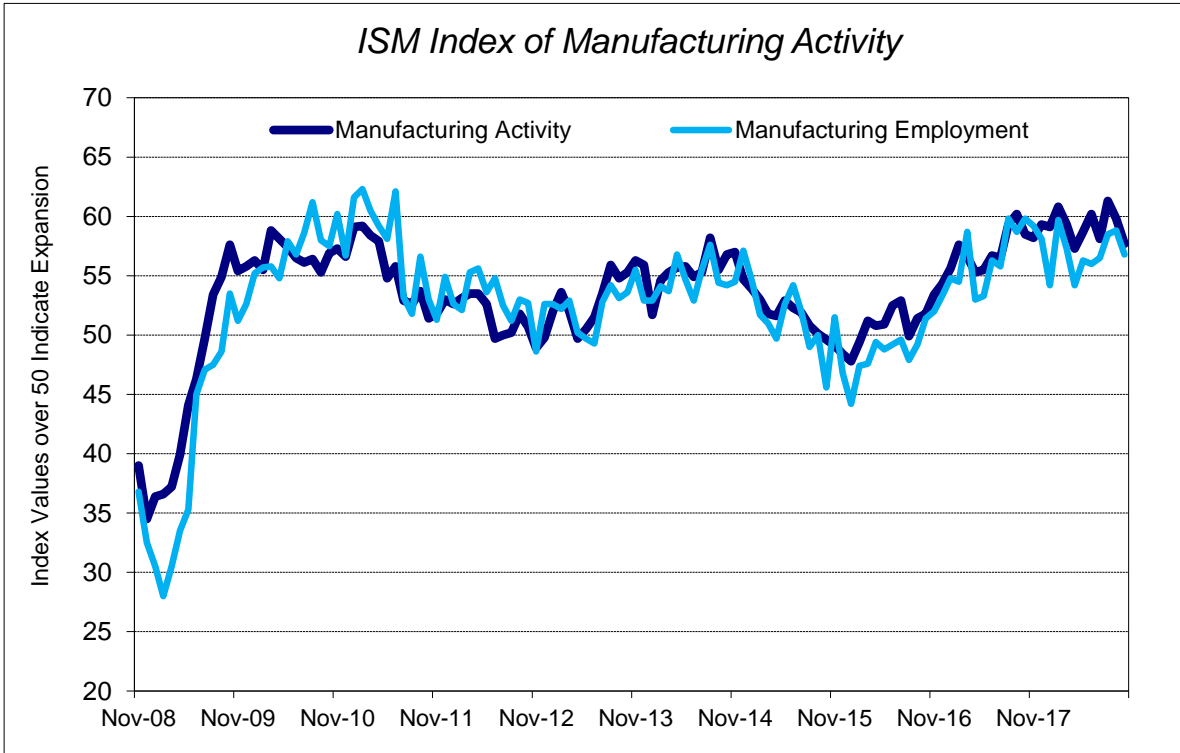
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



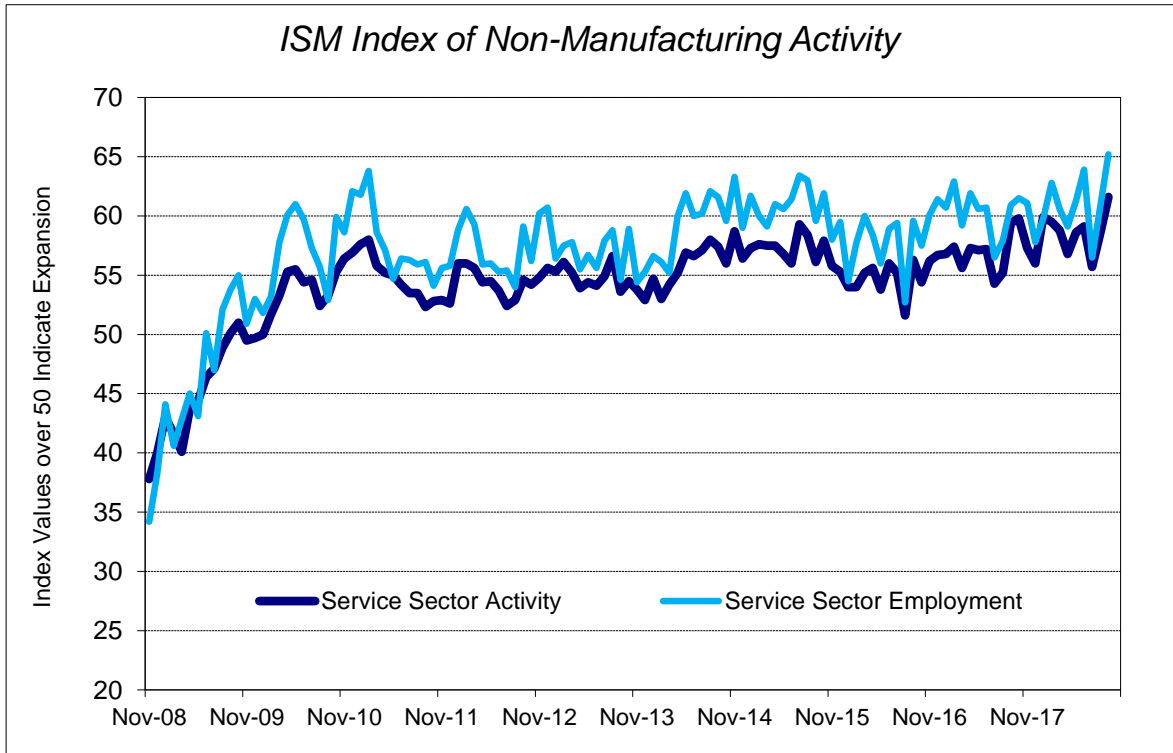
Source: Federal Reserve

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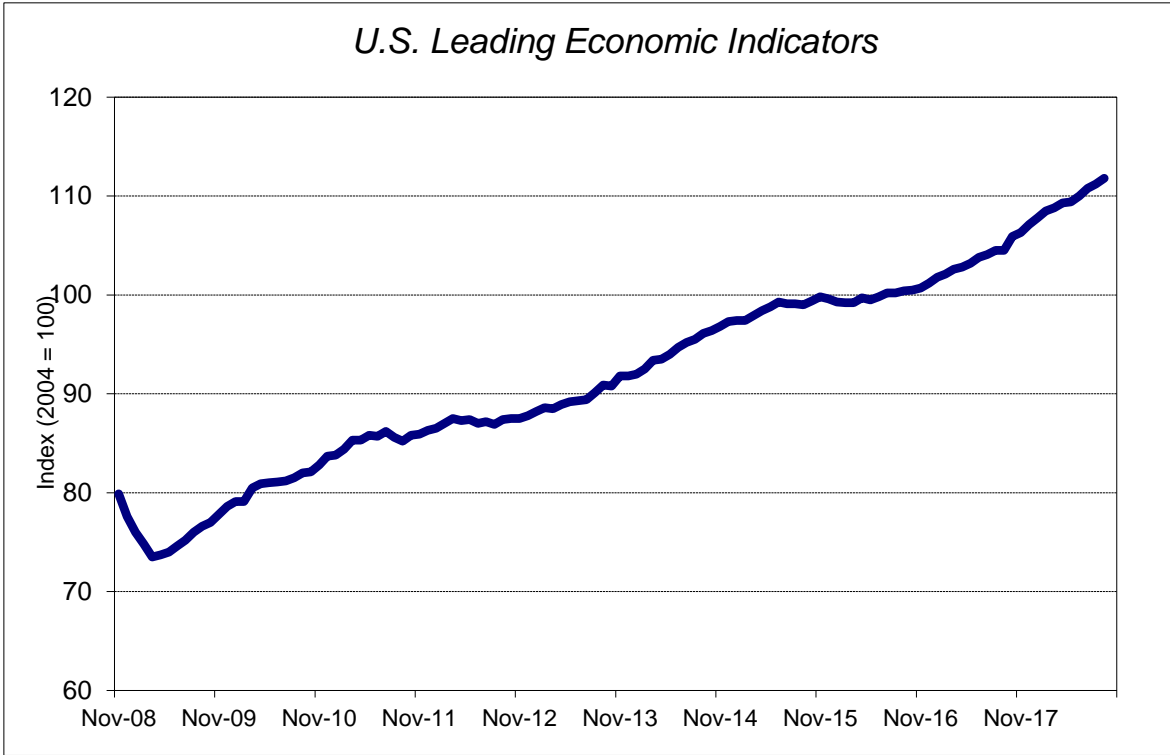
Source: Institute for Supply Chain Management



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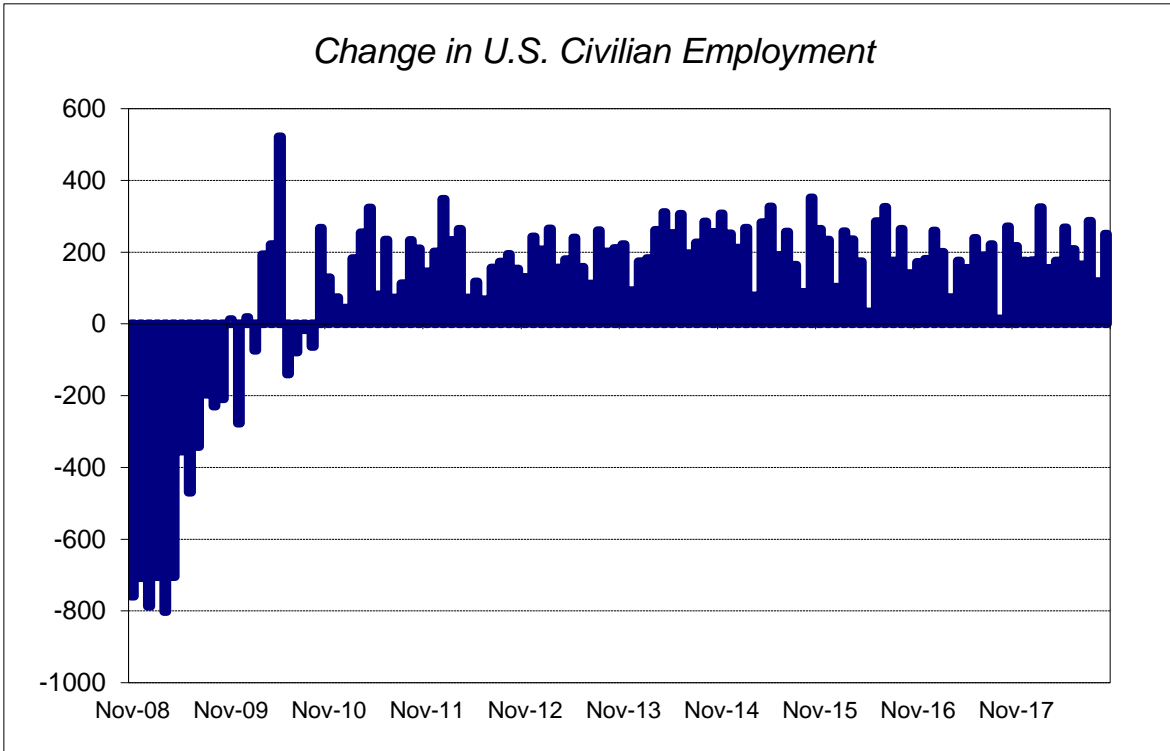
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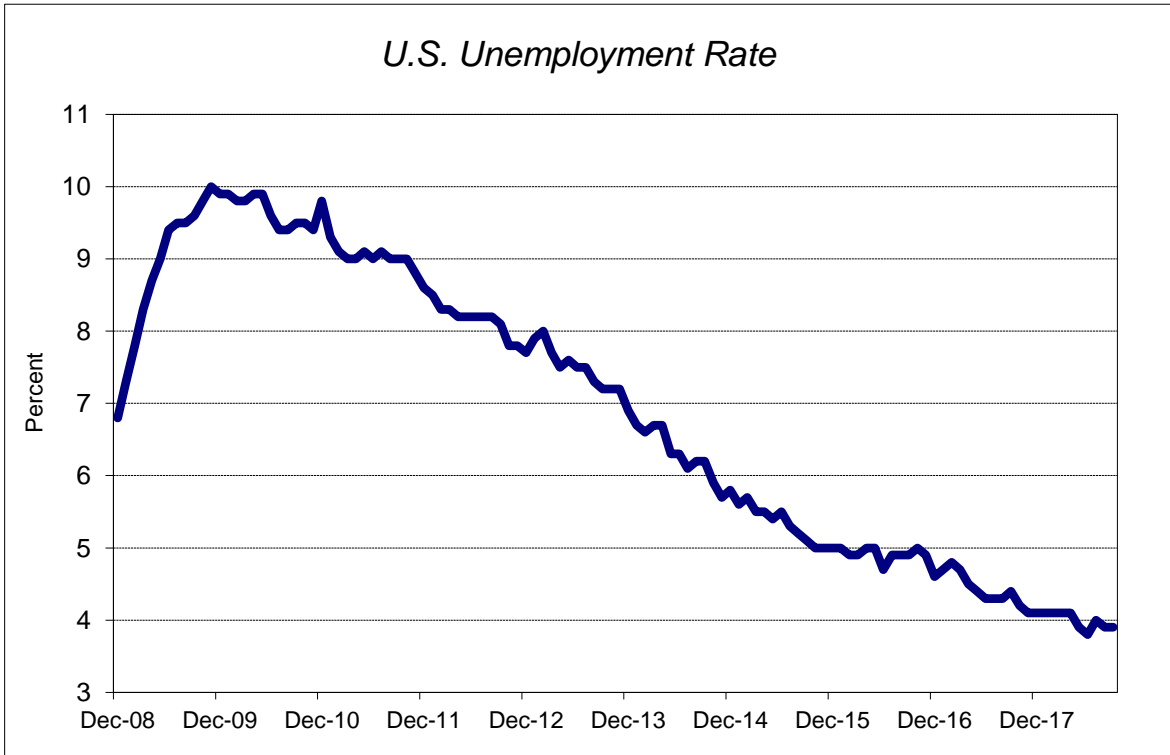
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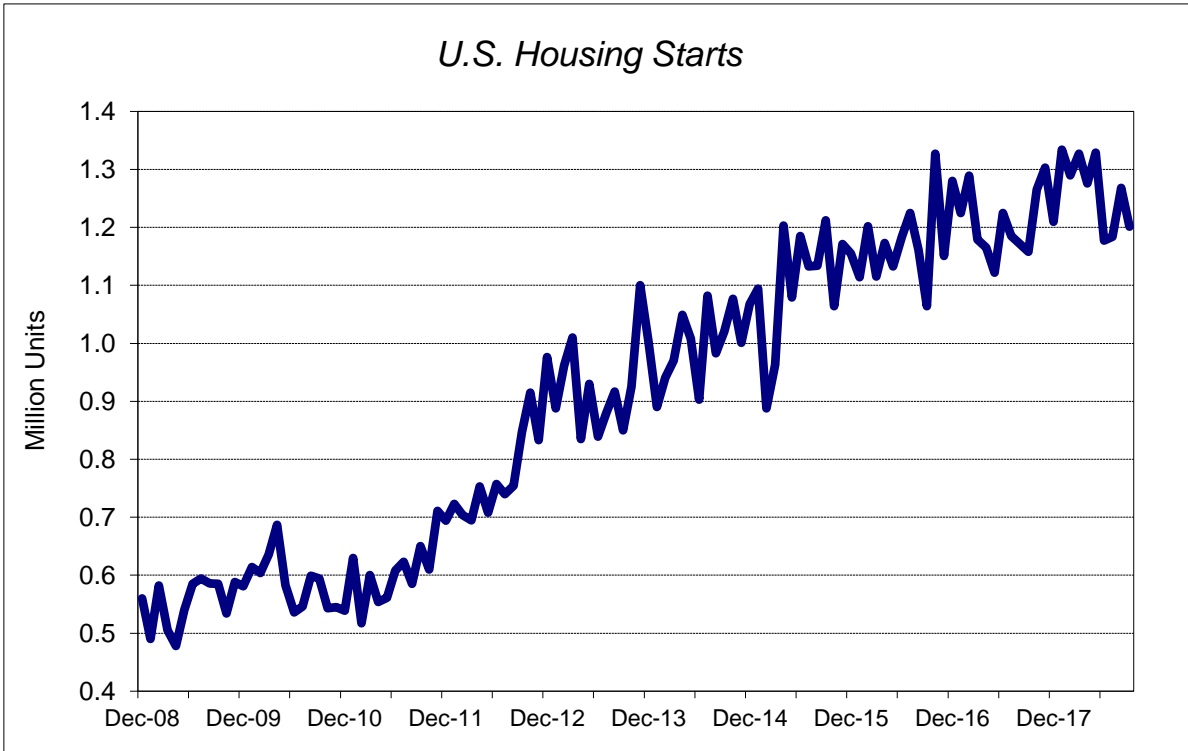
Source: Bureau of Labor Statistics



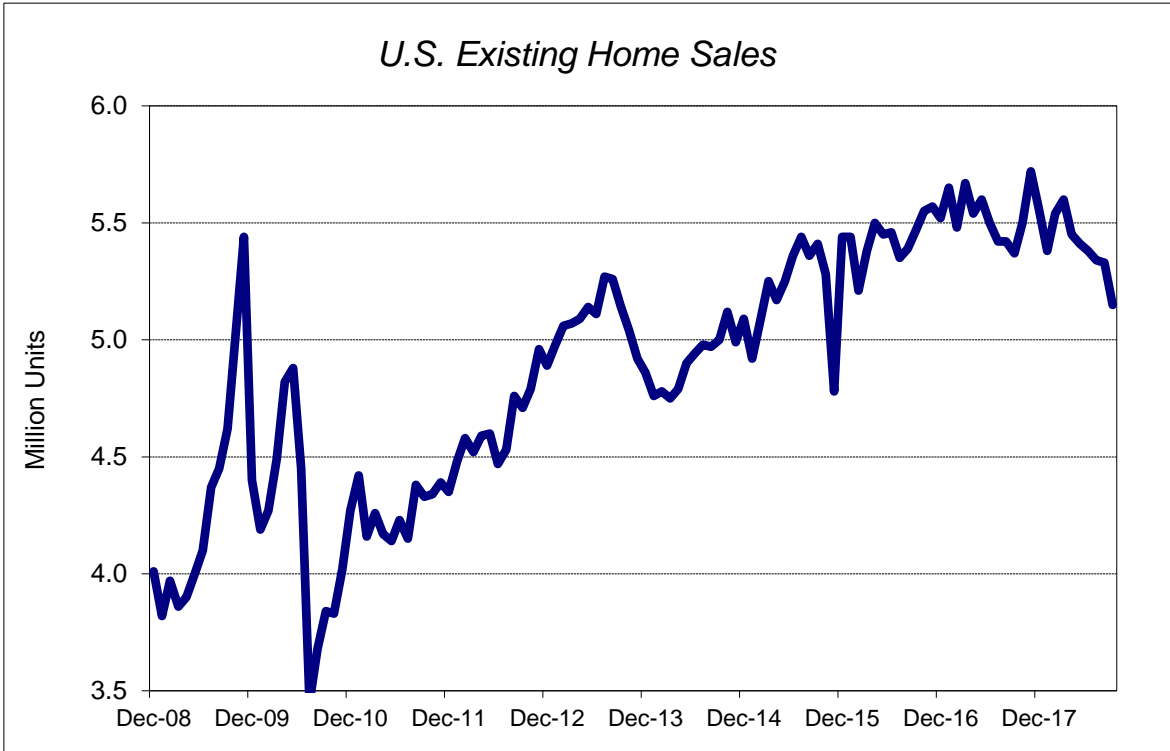
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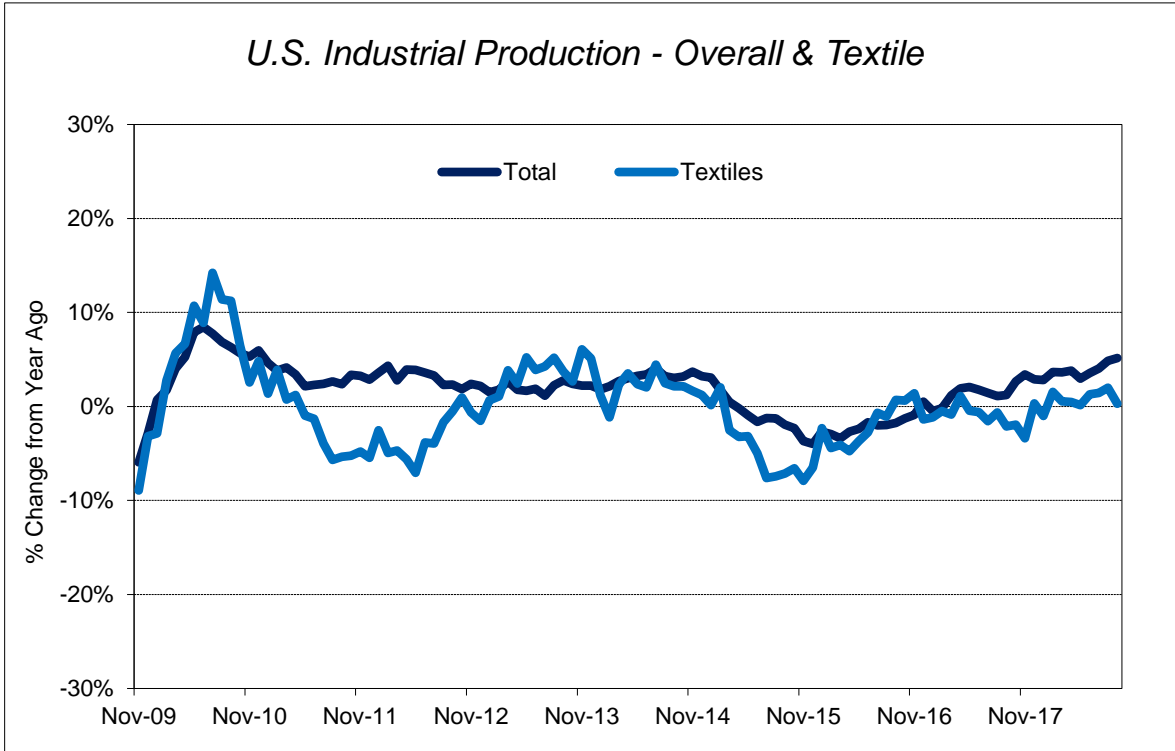
Seasonally Adjusted Annual Rate; Source: Department of Commerce



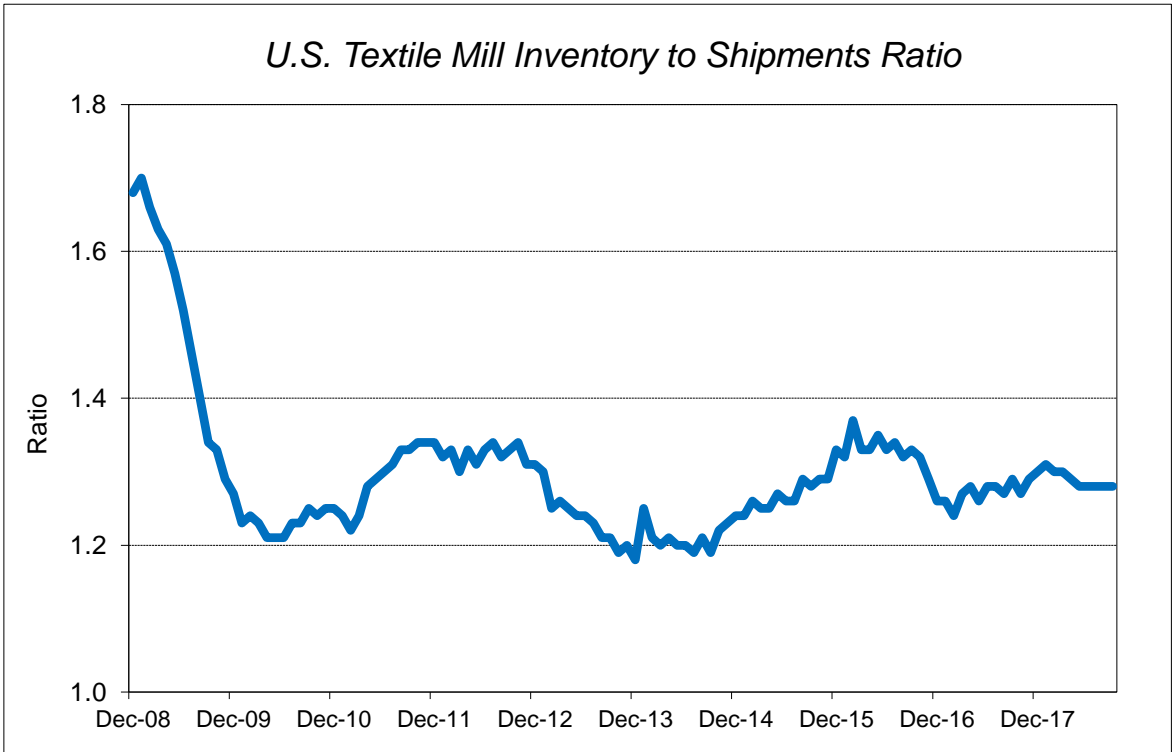
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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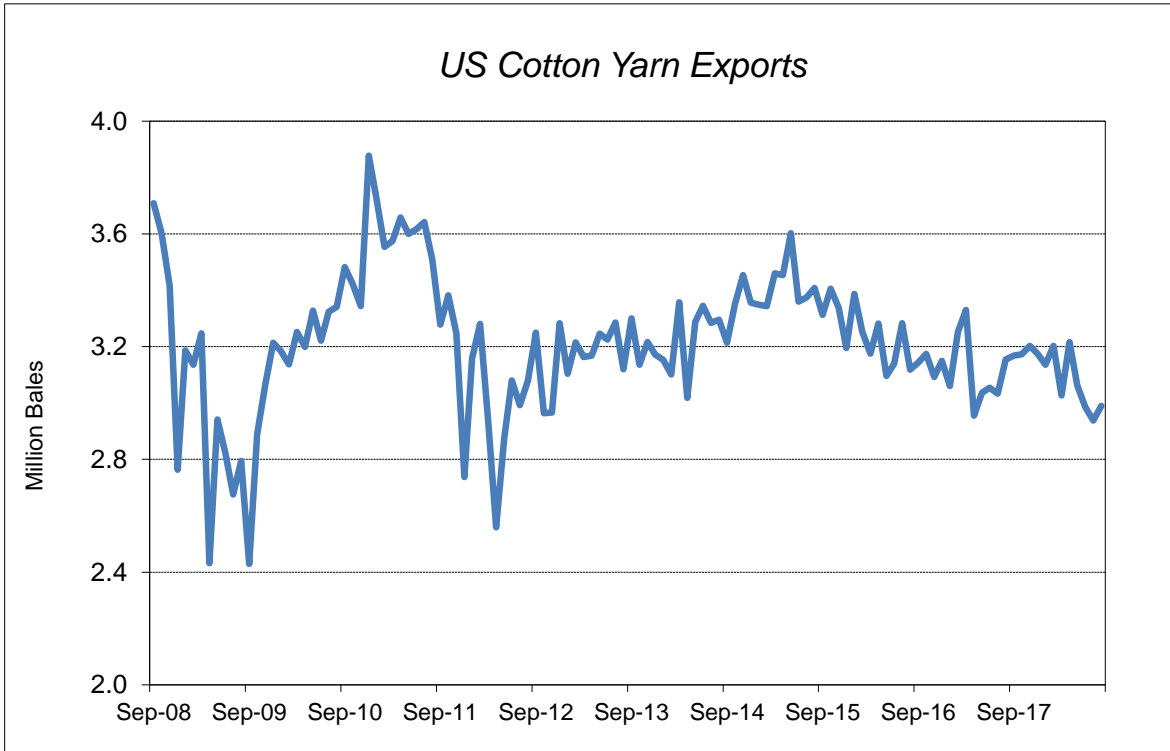
Source: Federal Reserve. Historical data revised to 1997 baseline.



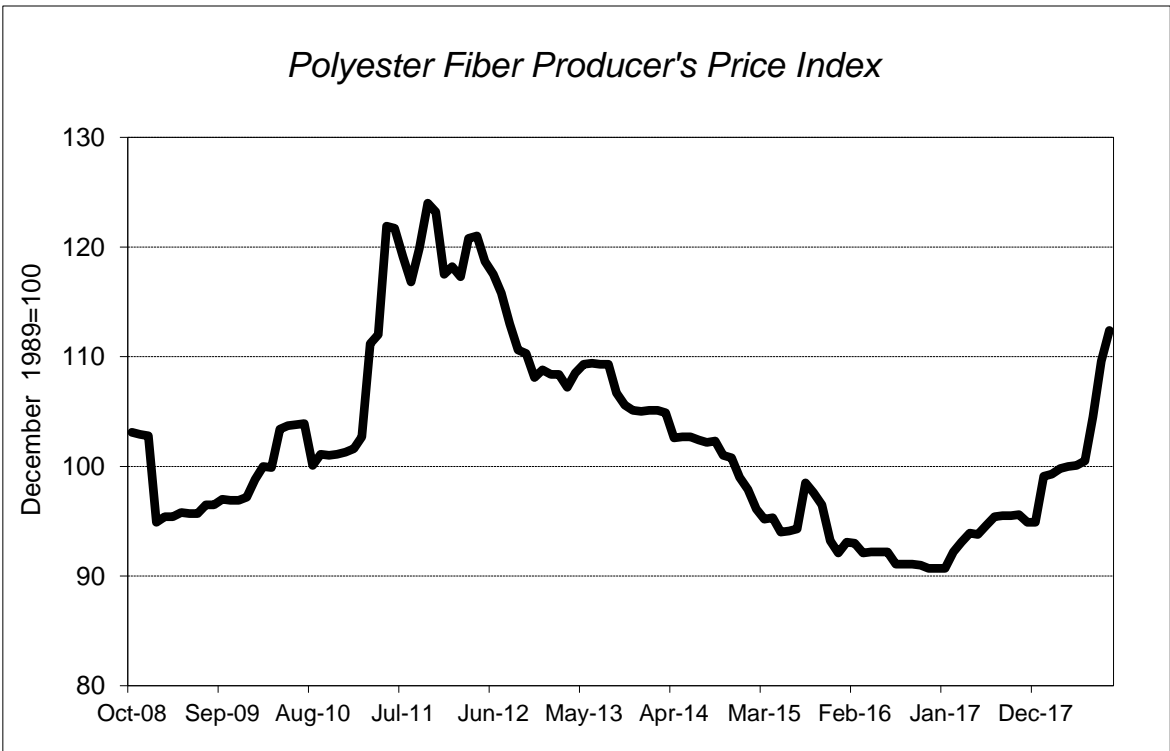
Seasonally Adjusted; Source: Department of Commerce

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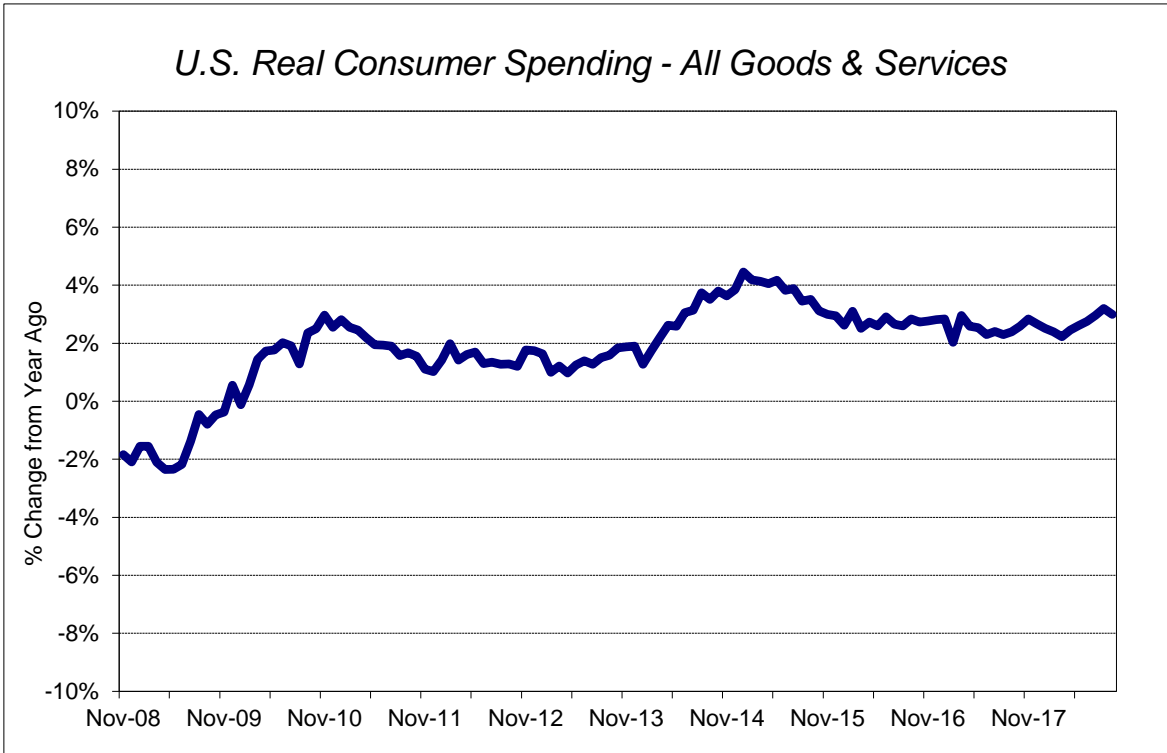
Seasonally Adjusted Annual Rate
 Source: USDA ERS



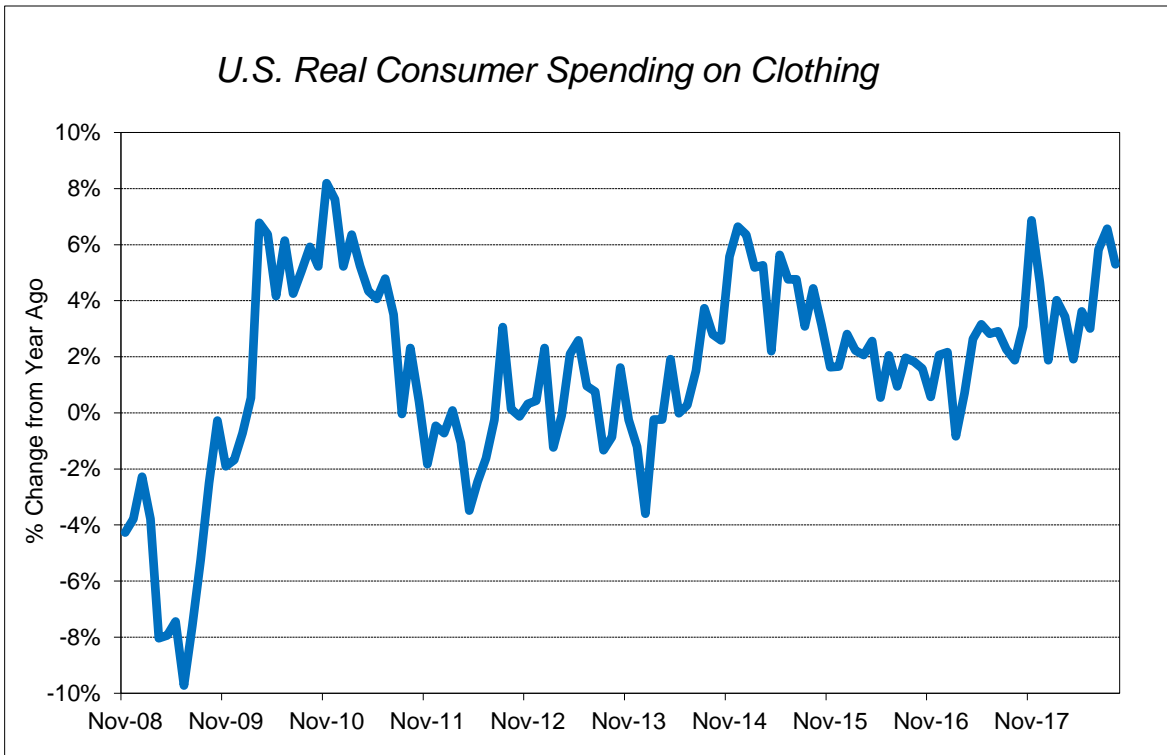
Source: Bureau of Labor Statistics

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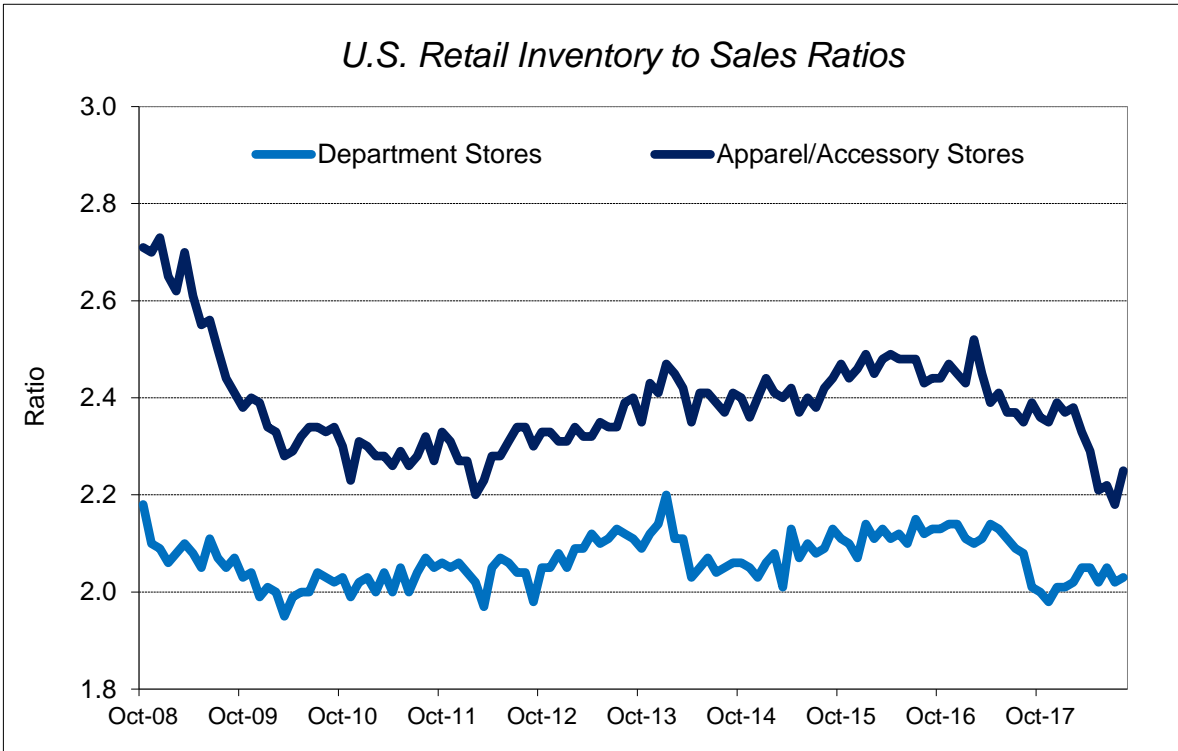
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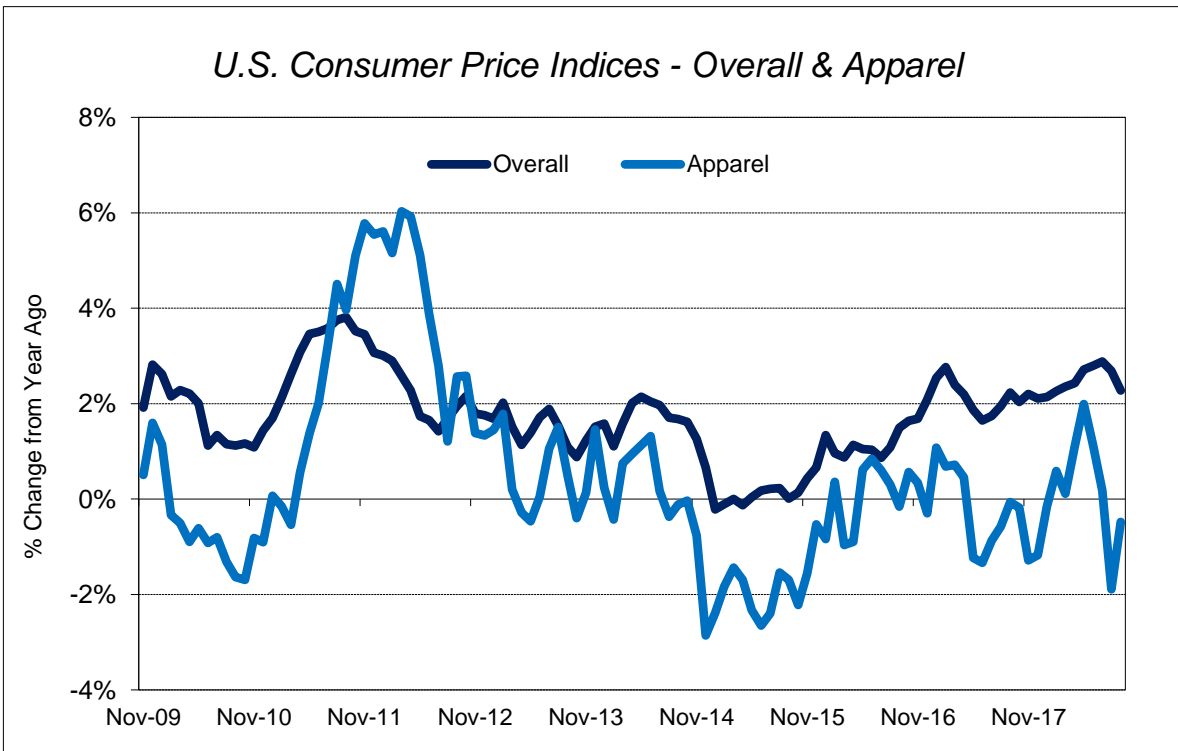
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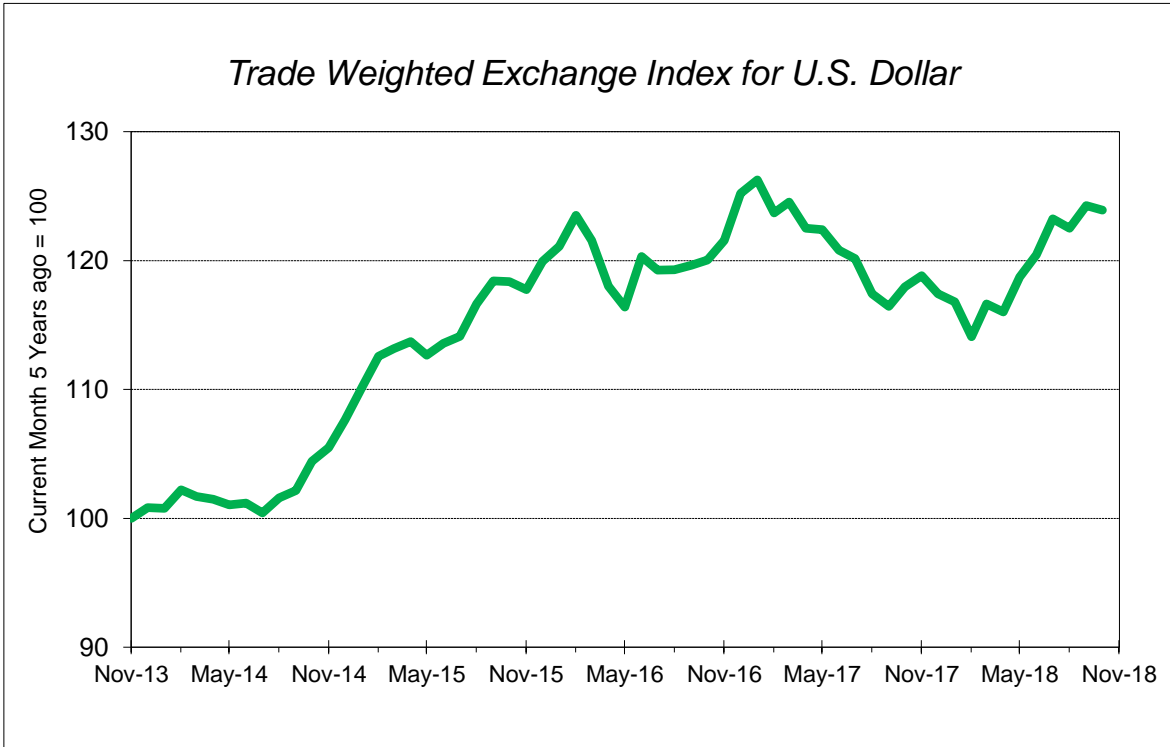
Source: Department of Commerce



Source: Bureau of Labor Statistics

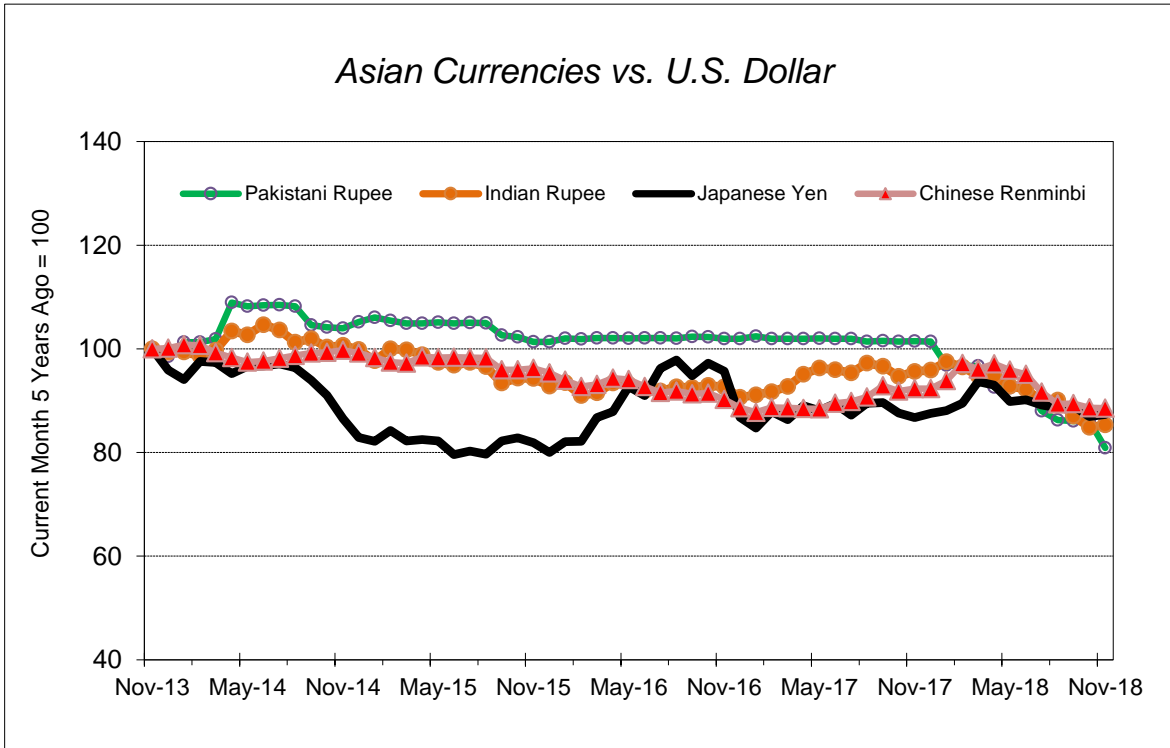
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Source: Federal Reserve

Source: Federal Reserve



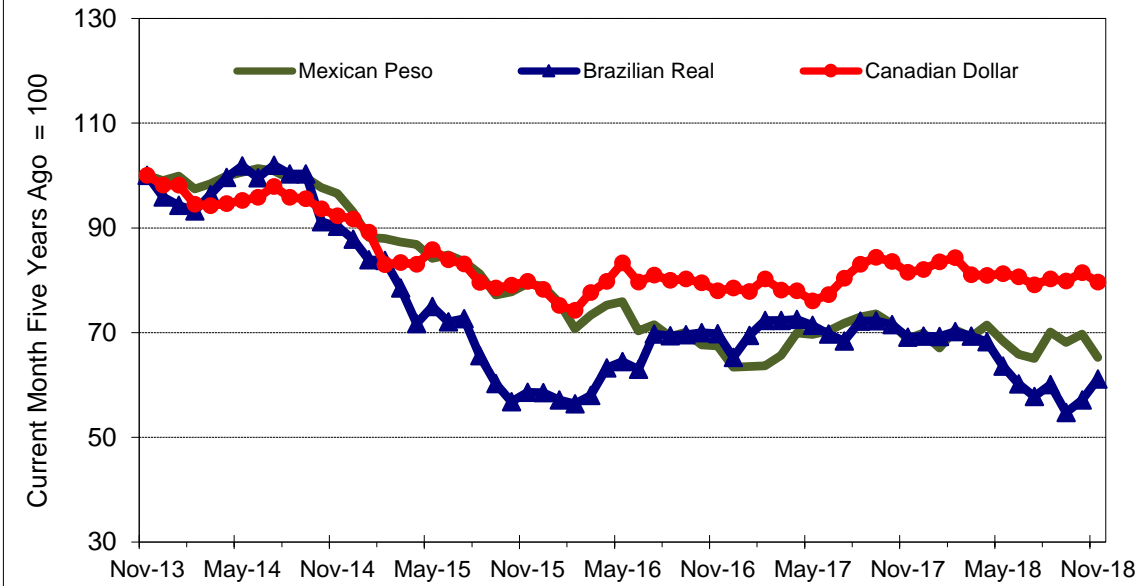
Source: oanda.com

Source: Reuters

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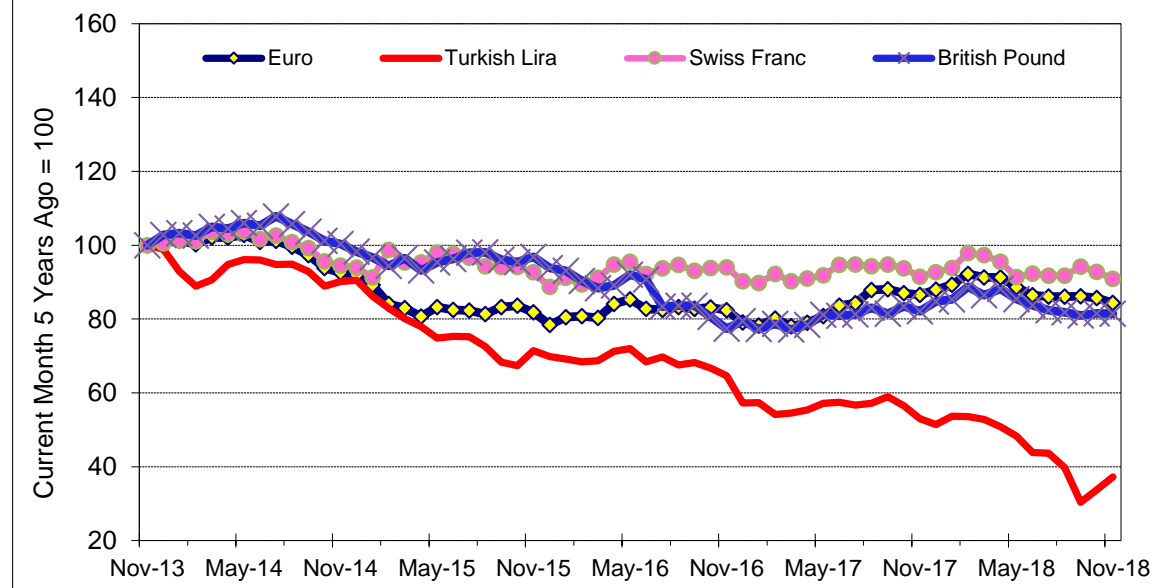
North & South American Currencies vs. U.S. Dollar



Source: oanda.com

Source: Reuters

Index of European Currencies vs. U.S. Dollar



Source: oanda.com

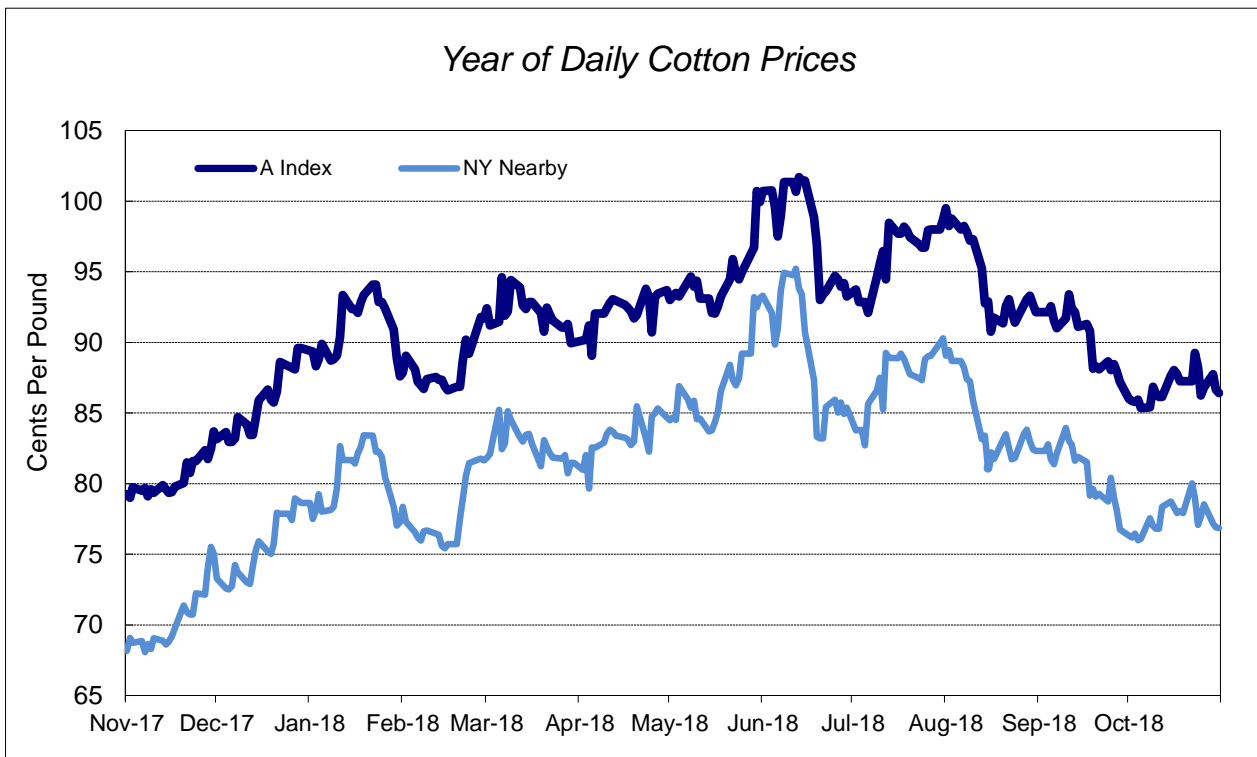
Source: Reuters

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U.S. Balance Sheet

| million 480 lb. bales | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 September | 2018/19 October |
|-----------------------|---------|---------|---------|---------|----------------------|--------------------|
| Beginning Stocks | 2.4 | 3.7 | 3.8 | 2.8 | 4.3 | 4.3 |
| Production | 16.3 | 12.9 | 17.2 | 20.9 | 19.7 | 19.8 |
| Imports | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supply | 18.7 | 16.6 | 21.0 | 23.7 | 24.0 | 24.1 |
| Mill-Use | 3.6 | 3.5 | 3.3 | 3.2 | 3.4 | 3.4 |
| Exports | 11.2 | 9.2 | 14.9 | 15.8 | 15.7 | 15.5 |
| Demand | 14.8 | 12.6 | 18.2 | 19.1 | 19.1 | 18.9 |
| Ending Stocks | 3.7 | 3.8 | 2.8 | 4.3 | 4.7 | 5.0 |
| Stocks/Use Ratio | 24.6% | 30.2% | 15.1% | 22.5% | 24.6% | 26.5% |



Sources: ICE Futures U.S. & Cotton Outlook

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